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STATEMENT OF INTEREST

The Licensing Executives Society (U.S.A. and Canada), Inc. ("LES"), is a non-profit professional organization whose purposes include: encouraging high standards and ethics among persons engaged in domestic and international licensing and transfers of technology and intellectual property rights, and assisting its members in improving their skills and techniques in those fields. LES currently has over 4,000 members in the U.S. and Canada. LES's membership consists of company executives, entrepreneurs, venture capitalists, accountants, patent attorneys, general practice attorneys, government representatives, and consultants, all of whom are engaged in the licensing of intellectual property. Many of its members are trial lawyers who daily grapple with litigation of patents. With this broad-based constituency, LES is directly interested in the impact this Court's decision will have on the licensing of intellectual property, and patents in particular.

The LES viewpoint is one of practicality in the business world, where patents are treated as valuable property rights, much as other property. As with real property, there is a need for certainty in defining the metes and bounds of the *res*, whether for exclusivity, sale, or sharing. For real property, one looks to the face of the deed to find the definition of the property right. For patents, one looks to the scope of the patent as issued by the Patent and Trademark Office. The basic business concern is what certainty can be gleaned from the public record as to the legal limits of ownership, whatever property is involved.

SUMMARY OF ARGUMENT

The interests of licensing and public policy are best served by reasonable certainty in the delineation of the legal metes and bounds of a patented invention. The doctrine of equivalents does not, by its existence, create uncertainty. Rather, uncertainty arises due to inconsistent application of the doctrine and excessive fluidity of the criteria used in its application. By improving the analysis used when applying this doctrine, and by clarifying the roles of judge and jury, this Court can add certainty, promote licensing over litigation, and spur competition and innovation.

The Federal Circuit's decision in this case need not be reversed. LES believes that the Federal Circuit's analysis is not fundamentally flawed. Rather, given the nebulous nature of the function-way-result test enunciated in *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 339 U.S. 605, 94 L.Ed. 1097, 70 S.Ct. 854 (1950), and the division among the Federal Circuit judges about how best to proceed, this Court's guidance and clarification is necessary to provide badly needed predictability in analyzing the proper scope of patent claims under the doctrine of equivalents.

The trial court is in the best position to set the outer boundaries of the doctrine of equivalents as a corollary to its interpretation of patent claims. *Markman v. Westview Instruments, Inc.*, 64 U.S.L.W. 4263 (April 23, 1996) *affirming* 52 F.3d 967 (Fed. Cir. 1995). The doctrine currently allows for sufficient consideration of equitable factors such as prosecution history estoppel, copying, or

designing around. *Hilton-Davis Chemical Co. v. Warner-Jenkinson Co., Inc.*, 62 F.3d 1512, 1521-22 (Fed. Cir. 1995) (*en banc*), *cert. granted*, 116 S.Ct. 1014, 134 L.Ed.2d 95 (1996). Creation of an equitable barrier to application of this infringement doctrine would add further uncertainty.

Under this Court's and the Federal Circuit's decisions, the jury decides infringement, i.e., whether the accused product or conduct falls within the claims of the patent, after the judge charges the jury as to the proper legal interpretation of the claims. In light of *Markman*, this instruction should include the outer boundaries of claim scope for purposes of applying the doctrine of equivalents. Because of *Markman's* result, there simply is no need for an equitable hurdle to application of this doctrine.

The test first enunciated in *Graver Tank* should be modified to recognize both the equitable and legal nature of the doctrine of equivalents, and to establish a framework that will allow reasoned analysis of a patent's claims, and thereby evaluation of the patent's scope.

ARGUMENT

I. Introduction

A. The Need for Predictability in Determining Patent Rights

This brief responds in part to Judge Newman's invitation in her concurrence below for "action-oriented industry" to fill "a telling silence on the part of the technology community" by discussing the public interest

aspects of the doctrine of equivalents.¹ 62 F.3d at 1529. LES is industry-oriented. LES submits this brief to inform the Court about the ramifications of the Court's decision in this case for intellectual property licensing.

Far more patents are involved in licenses than in litigation. Competition and the advancement of economic interests are the hallmarks of business. Licensing promotes these business interests far more efficiently than does litigation. Litigation is a necessary weapon in the arsenal of every competitor, but it is rarely if ever business's weapon of choice. If patent litigations number in the hundreds, then licenses number in the thousands to tens of thousands. In part, this is because of the expense and business distraction caused by litigation. It also stems from the desire for certainty in business planning. Litigation by definition is uncertain, as well as costly. Intellectual property management, like other business cost management, requires certainty.

Most recently, this Court's *Markman* decision emphasized "the importance of uniformity in the treatment of a given patent as an independent reason to allocate all issues of construction to the court." 64 U.S.L.W. at 4269. Without such uniformity, a "zone of uncertainty" would envelop and stifle technological innovation. *Id.*, quoting

¹ Unfortunately, most of the commentary about the Federal Circuit's *Hilton-Davis* decision has touched on, *inter alia*, the legal history of the equitable versus legal nature of the doctrine of equivalents in a trial setting. One exception is the article, "Decisions Key to Safe Licensing", by Joseph M. Manak in the March 1996 issue of *Les Nouvelles*, the Journal of the LES.

United Carbon Co. v. Binney & Smith Co., 317 U.S. 228, 236, 63 S.Ct. 165, 170, 87 L.Ed 232, (1942). As this Court recognized, uniformity of *application* yields greater certainty; this was the reason the Federal Circuit was established. *Markman*, 64 U.S.L.W. at 4269. LES believes this Court should aim to achieve greater certainty and uniformity in the application of the doctrine of equivalents, as it has done in the area of claim construction. Increased certainty in this crucial area will promote patent licensing by allowing for reasoned business planning and intellectual property management.

1. Predictability Promotes Licensing

From the licensee's standpoint, a patent license provides for payment for certain rights *and* avoidance of litigation. From the licensor's standpoint, a patent license provides a payment for giving up the Constitutionally guaranteed right to exclude others from making, using, or selling an invention. But for the licensor and licensee to reach a meeting of the minds, they must agree on the scope of patent rights being granted and received.

To do that, they look to the words of the claims, interpreting them with the aid of the patent's specification, its prosecution history, and the prior art that acts to limit the breadth of claimed subject matter. When measuring the metes and bounds of a patent, the licensing parties must be cognizant of the doctrine of equivalents. The licensee needs to know what rights it has obtained, what scope of activity is permitted, and what business can safely be conducted free from threat of suit. The licensor needs

to know what rights it has granted, where it has invited competition into its field of exclusivity, and what entities will be placed in competition with it. The rights obtained and rights granted (both express and implied) include rights arising from application of the doctrine of equivalents.

When considering *whether* to acquire a license, the licensee compares his perceived rights under a license to actual or contemplated actions. The competitive, financial, and technological benefits and risks are weighed for a number of courses of action, including (1) licensing, (2) litigating, or (3) developing a competing product outside the scope of the patent's claims (designing around). The ultimate decision of which course to follow requires the parties to judge the outer reaches of the patent's boundaries, the likelihood that the parties will agree to those limits, and the costs of testing (or defending) the patent's limits. To the extent that judgment can be based on a rational, objective foundation, the public interest is served: weak patents are challenged, strong ones are respected, and new technology is developed by "designing around" the patent.

The doctrine of equivalents plays a large role in this evaluation process for at least two reasons. First, as Judge Newman's concurrence observes, "technologic" change is most often incremental:

[T]echnologic advance, like scientific advance, usually proceeds in small, incremental steps, building on what has gone before, building on one's own work and the work of others. The steps, accumulating, may eventually produce the next

generation of technologic progress. Yet each step, viewed alone, may be an insubstantial change. Even minor improvements can displace the originator while adding little to advancing the field. See Besen & Raskind, *supra*, at 5 & n. 2. It is the insubstantial change that is caught by the law of equivalency.

62 F.3d at 1533. Second, competitive and market forces often require that substitute products come as close to the patented product as possible. These two concerns combine to make consideration of the potential scope of a patent's claims under the doctrine of equivalents of great concern in the licensing transaction.

2. Licensing Also Promotes the Progress of the Useful Arts

Licensing promotes technologic advance in numerous ways. For example, it "allows firms to combine complementary factors of production." U.S. Dept. of Justice and the Federal Trade Commission Antitrust Guidelines for the Licensing of Intellectual Property, at 2, April 6, 1995. It also provides a means for channeling scarce research and development dollars into alternatives and further improvements, rather than litigation aimed at determining the scope of protection. These laudable goals, and others, are aided when a licensor and licensee reach agreement on the scope of rights conveyed.

For example, a clear definition of the scope of a patent allows the parties to place a value on the technology being licensed, usually, but not always, in the form of a

royalty. The licensor may use its determination of the scope of rights to evaluate the business risk of other obligations or inducements under the license. For instance, a licensor sometimes takes on the duty to defend or indemnify a licensee against a third party infringement claim. In effect, the licensor is giving an insurance policy that the licensee can practice the licensed technology free from outside interference. The licensor must not only consider the scope of his own patents, but other patents as well. Certainty in application of the doctrine of equivalents allows the licensee to make a reasoned judgment about whether to demand such guarantees, for which it likely will pay a premium.

Delineation of the conveyed scope of rights also allows for more precise valuation of the licensed rights. Through decision-tree analysis and probabilistic assumptions, licensing parties can achieve a truer value for the licensed rights, avoiding economic waste and free riding. And of course, in the real world many companies are both licensors and licensees, so that economic interests are often best served by a rule that allows the concerns to be balanced.

For licensing to proceed on a rational basis, both parties need certainty in defining what conduct does or does not infringe the patent's claims. Unfortunately, even the literal words of claims lead to disputes. The doctrine of equivalents adds an element of uncertainty to this process, both for litigation and for licensing.

The doctrine was given some boundaries by the Court's long-standing test articulated in *Graver Tank*. Recently, however, there have been attempts to articulate

an equitable hurdle to assertion of the doctrine of equivalents. *London v. Carson Pirie Scott & Co.*, 946 F.2d 1534, 1538 (Fed. Cir. 1991). If this mechanism reduces uncertainty (an "innocent" infringer would know that he need be concerned only with the literal words of the claims), it would do so at a very high price. The erection of an equitable hurdle sacrifices desired respect for patent rights by discouraging competitors from learning about existing patents. Moreover, it could actually promote litigation. A patentee would not know infringement was innocent until it challenged the infringing conduct and discovered why it happened. Finally, an equitable hurdle does little to add certainty. The focus merely shifts from the technological distinctions between patent claims and accused products to differentiating between levels of intent.

This case presents the Court with an opportunity to reduce uncertainty further for trial courts, for litigants, and for licensors and licensees who contemplate granting or taking licenses to *avoid* litigation. The "importance of uniformity" plays a dominant role in licensing. *Markman*, 64 U.S.L.W. at 4269. For the doctrine of equivalents, however, uniformity in *application* supersedes uniformity of result. This case should be decided consistent with *Markman*, lest one set of uncertainties is merely replaced by another. Whether a jury always, sometimes, or never decides equivalents, and under what test, must be reconciled with *Markman's* conclusion that claim interpretation, an analytical precursor to both literal infringement and infringement under the doctrine of equivalents, is a task for the judge.

B. What Should be Done With the Doctrine of Equivalents?

This Court has a number of options, including: (1) abolish the doctrine of equivalents entirely; (2) maintain the doctrine but remove equitable considerations; (3) establish an equitable threshold to assertion of the doctrine; or (4) affirm existing practice of allowing jury consideration of equivalents whenever raised, using equitable considerations of the traditional *Graver* test -- the test of "substantial differences" articulated by the Federal Circuit.

Abolishing the doctrine of equivalents, an extreme suggestion, would decrease uncertainty about the metes and bounds of a patent, since parties could rely on the face of the patent. It would encourage vigorous prosecution before the Patent Office as the determinant of the scope of claims. But it would also encourage free-riders to make insubstantial changes to compete with the successful invention. Moreover, with no doctrine of equivalents, technological change would be difficult to account for, as literalism replaced flexibility, and rigidity replaced reasoned analysis. This approach runs counter to the acknowledgement in *Markman* that patent claim construction requires flexibility and reason. 64 U.S.L.W. at 4267-68.

The alternative to the doctrine of equivalents, whose intent is to capture the equitable scope of a patent claim, would be to force a patentee to rely on 35 U.S.C. §§ 251-52, which allow a patentee to broaden the scope of a patent's claims up to two years after issuance. *See also* 62

F.3d at 1536 (Newman J., concurring) (recognizing the limited utility of this alternative). During prosecution, an applicant typically submits a number of claims of varying breadth, and argues for allowance of the broadest claims. To the extent any claims may be ambiguous, the "patentee can be his own lexicographer" and define the terms to his liking. *See, e.g., Beachcombers, International v. WildeWood Creative Products, Inc.*, 31 F.3d 1154 (Fed. Cir. 1994). This alternative places on the patent applicant the onus of drafting claims to cover even insubstantial, alternative methods of practicing the inventions, and penalizes him with the loss of exclusivity if he misses even one of the insubstantial alternatives.

This position analogizes a patent to a contract. It does not recognize, as this Court has, that "[p]atent construction...is a special occupation, requiring...special training and practice." *Markman*, 64 U.S.L.W. at 4268. LES does not recommend such a radical departure from established precedent and years of established patent practice, with little benefit to offer in return.

Removing *all* equitable considerations from the doctrine also seems unwarranted. Clearly, as the Federal Circuit notes in its majority opinion below (and all of that court's other opinions recognize as well), an accused infringer's actions have and should continue to play a role in the doctrine's application. 62 F.3d at 1518-20. For example, evidence of copying supports the conclusion of insubstantial change (referred to in some cases as "pirating" the invention). Removing equity, while adding predictability, would eliminate flexibility, reason, and judicial discretion to remedy civil wrongs. Predictability,

while necessary and laudable, should not come at the expense of justice.

Placing an equitable hurdle in front of a patentee suffers from similar drawbacks. As discussed above, an equitable hurdle leads to equally uncertain results. For example, an equitable hurdle could lead to differing results for identically-positioned accused infringers. One accused infringer may be found liable because it was aware of the patent when adopted certain portions of the patented technology, while a second is not liable because it does not search out competitors' patents. Resolution of the myriad unanswered questions that would apply to this equitable hurdle would yield uncertainty for years to come, as the boundaries of such a test were established. Moreover, creating this equitable hurdle would lead to a result tantamount to abolishing the doctrine altogether.

Existing practice, which allows a jury to consider the doctrine wherever properly raised by a party, remains the route that best balances certainty with justice. Moreover, this Court can clarify the *Graver Tank* test to provide better guidance for *when* and *how* differences between the claims and the alleged infringement will be adequate to avoid infringement.

C. The Role of Judge and Jury in the Doctrine of Equivalents

Historically, one of the more volatile areas of patent law has been determining which issues are for the jury and which are reserved for the court. *Markman*, 64 U.S.L.W. at 4265-67. A typical patent case has many issues, such

as anticipation, obviousness, enablement, best mode (all validity issues), inequitable conduct, infringement, and damages. The case law for years could at best be described as lacking consistency, with the allocation of some issues more clear than others. For example, the jury decides infringement, *Markman*, 64 U.S.L.W. at 4265, but the court decides if an injunction is entered against the infringing activity. The jury decides the quantum of damages, but the court decides if those damages are enhanced and in what amount. The jury decides the factual issues underlying an assertion of obviousness, but the court decides the ultimate question of validity. Other issues are less clear because of lack of precedent or conflicting precedent. LES believes that a clear delineation of the respective roles of judge and jury will provide licensing professionals with the ability to obtain legal advice sufficiently definite to allow reasoned business decisions.

LES will leave to others the question of whether there is a Constitutional right to a jury in this case, although this Court's decision in *Markman* may have settled that question. *See id.* at 4268. If the doctrine of equivalents is for the jury, it should be submitted with established boundaries for the patent claims, as set by the trial court under *Markman*. A jury can then decide equivalents based on a reasoned set of judicial principles.

D. Setting the Boundaries of the Doctrine of Equivalents

A desirable step in reducing the uncertainty of a jury deciding the doctrine of equivalents is to have judicial outer boundaries for application of the doctrine in a given case. Rules to accomplish this are already in place. For example, *Pennwalt Corp. v. Durand-Wayland, Inc.*, 833 F.2d 931 (Fed. Cir. 1987) (*en banc*), *cert. denied*, 485 U.S. 961, 108 S.Ct. 1226, 99 L.Ed. 2d 426, (1988) requires an equivalent to be proved for each element of a claim not literally satisfied; *Wilson Sporting Goods, Co. v. David Geoffrey & Associates*, 904 F.2d 677 (Fed. Cir. 1990), *cert. denied*, 498 U.S. 992, 112 L.Ed. 2d 547, 111 S.Ct. 537 (1990) requires the fact finder to conceive a literal claim that covers the accused infringement, then compare that claim to the prior art to see if that "hypothetical" claim could be valid (mimicking patent prosecution); and *Southwall Technologies v. Cardinal IG Co.*, 54 F.3d 1570 (Fed. Cir. 1995) clarifies the limiting effect of a patent's prosecution history.

Collectively, these cases provide a framework for defining the outer boundaries of a patent claim. With the *Markman* claim construction holding, these existing cases can be used to instruct a jury about the potential range of available equivalents. This approach would dovetail with *Markman*: since claim interpretation is a legal question for the judge, the judge should logically charge the jury as to both legal interpretation of the claims and the outer boundaries of the claims under the doctrine of equivalents. In setting the outer boundaries, the trial judge may

consider the types of claim elements involved. For example, in this case, the claim element of pH is well known, with accepted methods of testing to determine if the accused infringement is within the range of 6 to 9. With or without the word "approximately", the trial judge may decide that as a matter of law 5 cannot be 6 either literally or under the doctrine of equivalents. If the trial judge decides that 5 *may* be 6, then the jury would decide whether it *should be*, based on the evidence presented.

E. Equitable Thresholds to Assertion of the Doctrine of Equivalents

Under the approaches discussed thus far, an innocent infringer who did not copy a patent, was unaware of a patent, conducted independent research and development and/or attempted to design around a patent in good faith in reliance on the literal words of the claims could be just as subject to the doctrine of equivalents as a deliberate pirate. Of course, all this is also true of a literal infringer. The deliberate pirate's additional punishment comes if willful infringement is found and a case is judicially declared "exceptional." 35 U.S.C. § 285. The patentee may then be entitled to enhanced damages.

For a licensor, a mandatory-for-the-jury equivalents rule may result in licensing solely to avoid uncertain charges of infringement. But it is not the doctrine that yields this result. Rather, it is the lack of predictability of its application. Licensees may feel compelled to pay royalties in doubtful situations rather than risk the high cost of defending against a weak patent.

Requiring the trial judge, rather than the jury, to determine patent claim boundaries for purposes of the doctrine of equivalents would be consistent with those cases that focus on equivalents as a means to stop "pirates", "unscrupulous copyists", and "fraud". Non-lawyers generally have no difficulty with the concept that such behavior may be subject to liability. Their difficulty lies in the uncertainty of liability, even where such behavior exists. This Court determined that "all issues of construction" are for the trial court. *Markman*, 64 U.S.L.W. at 4269. Ceding this additional responsibility to the trial judge, when equivalents is raised, would be consistent with *Markman* and would foster predictability.

This Court's long-standing test in *Graver* of "substantially the same function in substantially the same way to achieve the same result" has been applied for many years. The fractured decision issued by the Federal Circuit has increased uncertainty in the application of this useful and vital doctrine. A later Federal Circuit decision has confused matters further. *Roton Barrier Inc. v. Stanley Works*, 79 F.3d 1112 (Fed. Cir. 1996). The existing confusion highlights the need for a clear pronouncement by this Court as to the appropriate test, including what, if any, role equitable factors play in the doctrine of equivalents analysis. That test need not deviate substantially from existing precedent. Rather, this Court need only look to the tests for equivalence already in place, *see supra* pp. 13-14, and determine whether these decisions provide sufficient flexibility for the applicability of this doctrine.

CONCLUSION

The trial court should decide not only legal claim interpretation, but also the outer boundaries of the doctrine of equivalents, using established principles. If equitable factors are to be considered at all, they should be applied as part of the doctrine of equivalents, with guidance from the trial judge. There simply is no reason to remove the jury from its traditional role of deciding the factual issues of whether an accused product or process falls within the claims, as interpreted and cabined by the trial judge.

As an organization of licensing professionals, LES believes a rule following this analytical approach would most favor uniformity of application, predictability, certainty, and competition. The decision of the Federal Circuit need not be reversed; but clear guidance from this Court should be provided.

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